

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7195

BILL NUMBER: SB 298

NOTE PREPARED: Jan 2, 2007

BILL AMENDED:

SUBJECT: Taxation of Military Pensions.

FIRST AUTHOR: Sen. Merritt

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill allows a deduction from Adjusted Gross Income for military retirement benefits converted to federal civil service retirement benefits.

Effective Date: January 1, 2008.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new deduction for converted military retirement benefits. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individual taxpayers who converted military retirement benefits to federal civil service retirement benefits. The precise revenue loss due to the bill is indeterminable because data is unavailable as to pertinent retirement conversions. Any fiscal impact resulting from the bill would begin in FY 2009.

Background Information: The bill allows individual taxpayers who converted military retirement benefits to the federal civil service retirement plan to claim the military income deduction as well as the deduction for federal civil service retirement benefits. Under current statute, a taxpayer may deduct up to \$2,000 in military retirement income from AGI if the taxpayer is 60 years old or older. Also, current statute allows a taxpayer to deduct up to \$2,000 in federal civil service retirement income from AGI. (Note: The civil service deduction is equal to the difference between \$2,000 and the total amount of social security and railroad benefits received by the taxpayer.) The bill would allow a taxpayer who receives federal civil service retirement income and claims the maximum civil service deduction to deduct additional civil service

retirement income from AGI if the income is attributable to military retirement benefits converted to the federal civil service retirement system.

The number of taxpayers that may qualify for the military income deduction under the bill and the amount of converted retirement benefits they may be able to deduct from AGI is indeterminable. Since the bill is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the expansion of the military service income deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) could potentially experience a minimal decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources:

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